FREE

THIS ISSUE IN TWO SECTIONS

AN EXCLUSIVE BAY GUARDIAN STUDY CHALLENGES THE CONVENTIONAL WISDOM THAT DOWNTOWN DEVELOPMENT CREATES JOBS

1. SMALL BUSINESSES HAVE CREATED VIRTUALLY ALL THE NEW JOBS IN SAN FRANCISCO SINCE 1980.

2. MEANWHILE, BIG DOWNTOWN COMPANIES POSTED A NET JOB LOSS.

3. IN THE FUTURE, MORE NEW HIGHRISES WILL MEAN FEWER NEW JOBS.

THE SAN FRANCISCO BayGuardian

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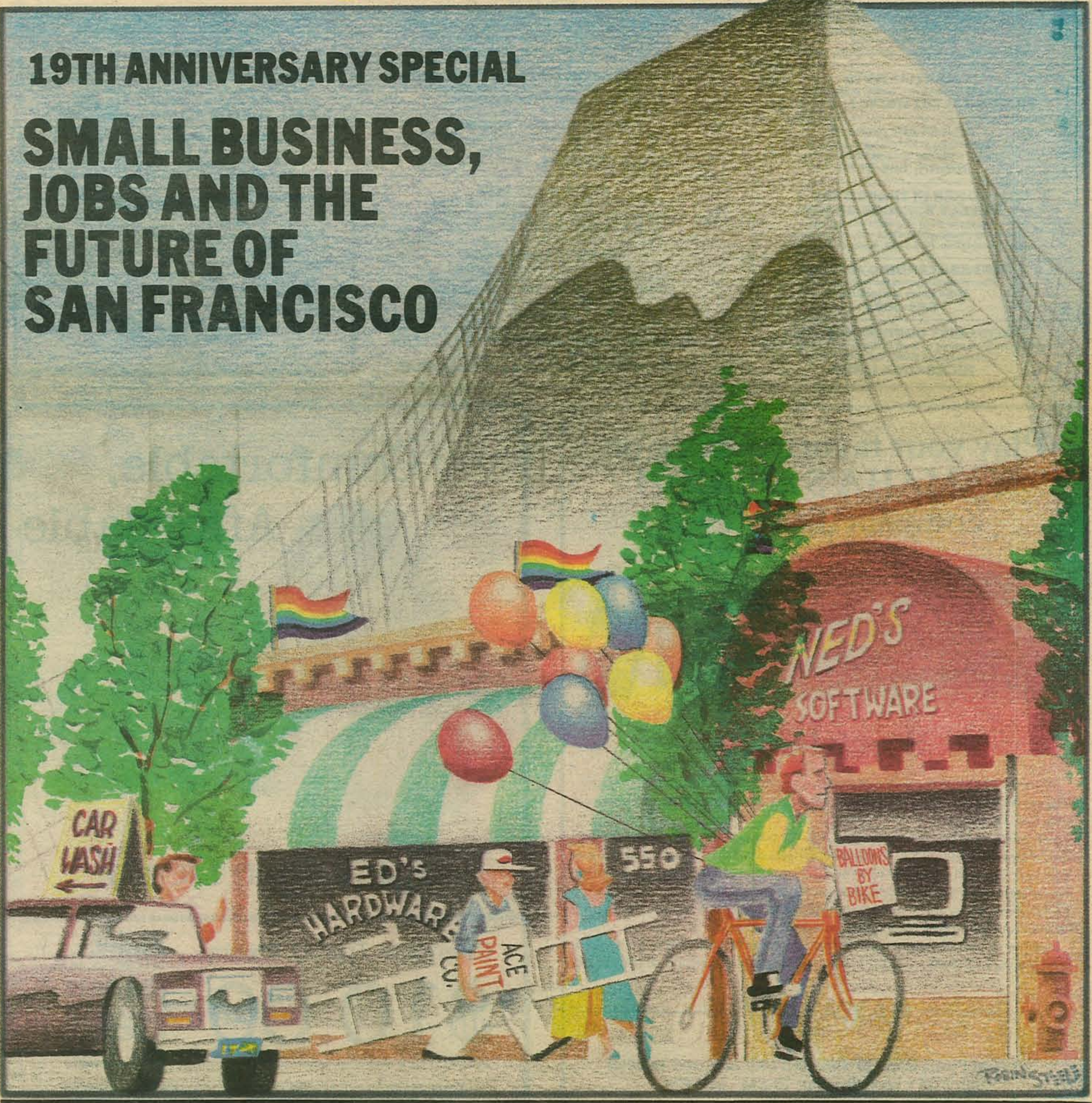
19TH ANNIVERSARY SPECIAL

SMALL BUSINESS, JOBS AND THE FUTURE OF SAN FRANCISCO



GUARDIAN GRAPHIC BY ROBIN STEELE

SINCE 1966. THE LARGEST CIRCULATION NEWSWEEKLY IN NORTHERN CALIFORNIA

OPENING A NEW FRONT IN THE HIGHRISE WARS

On October of 1966, when the Bay Guardian started publishing from a single desk in the back of a printer's office in the alley behind the Chronicle, the first visible effects of the downtown building boom were beginning to appear in downtown San Francisco.

We chronicled our forebodings in a prophetic Ted Rasmussen cartoon of a boy and his father sitting at the Top of the Mark, A.D. 2000, unable to see the Bay or the ocean because of the forest of highrise buildings. The father says, "Time was you could see the Bay from here, Ralph." the boy replies, "How quaint."

From that point on, the Bay Guardian has spent much of its editorial energy in reporting on the city's biggest story: the downside costs and effects of the 20-year building boom that we feel is ruining one of the world's great cities.

At first, the Chamber of Commerce and the politicians who formed the downtown development booster club argued that highrises would be the economic salvation of the city — the new buildings would bring in huge tax revenues, create jobs for city residents, pay for new mass transit and stimulate housing construction across the city. In 1971, we published our pioneering cost-benefit study on downtown development. Its conclusion: Downtown costs more in city services than it pays in taxes. The Chamber immediately changed its tune, acknowledging that highrise construction involved certain costs, but asserting it would have a "net economic benefit." And the battle was on.

In 19 years, the debate has come almost full circle: The Chamber has been forced to admit not only the financial costs of intensive development but also the irreparable damage to the city's environment and quality of life. Eventually, it simply became impossible to do otherwise: No matter how many rosy proclamations were issued by Chamber spokesmen, San Franciscans couldn't help but notice the ever-more-crowded streets, the ever-darker canyons and the ever-higher rents.

So when the supervisors began considering Mayor Feinstein's Downtown Plan, which would allow the building boom to continue unchecked for another 15 years, Downtown was reduced to its final ace-in-the-hole. The argument that convinced six supervisors to support the Downtown Plan was simple: Highrises create jobs. San Francisco needs jobs. Therefore, San Francisco needs highrises.

★ ★ ★

Several times in recent years, we've set out to examine that argument — to determine, once and for all, whether more development really will lead to more jobs, especially for unemployed San Franciscans. The available evidence suggested otherwise. Most of the jobs, it appeared, were going to newcomers and commuters. But the evidence was sketchy and inconclusive. The Chamber couldn't prove its case, but we couldn't prove ours, either. The city had spent hundreds of thousands of dollars on environmental and economic studies for the Downtown Plan, but somehow nobody had bothered to go after the data on job generation.

This fall, another issue of long-time concern to the Bay Guardian was heading for an election showdown. A group of small business owners had decided that the Downtown Plan did little or nothing to address their concerns, so they were organizing a campaign to form a Small Business Commission in the city. Small businesses, these merchants asserted, were responsible for the vast majority of the jobs in San Francisco — the headquarters companies in the downtown towers were laying off more people than they were hiring.

We believed them, but when we set out to write about it, we found that the merchants had no hard data, either.

Then in the course of our inquiries, we learned that an economist at the Massachusetts Institute of Technology had compiled an exhaustive set of data on job generation in major U.S. cities, including San Francisco. Professor David Birch had purchased his primary information from the Dun and Bradstreet Corp., a nationwide marketing agency that tracks year by year as many as 85% of the individual businesses in almost every major city and has perhaps the most complete, up-to-date business activity data base available anywhere in the country. Public and private development agencies in some 40 cities had commissioned Birch to study business activity in their region. San Francisco was not among them.

If San Francisco had a Small Business Commission (as it will if the voters approve Prop. B on Nov. 4th), or if the Chamber of Commerce were really interested in small business, this is the sort of information it might want to obtain. Since nobody in the city government or the Chamber seems terribly interested, we went ahead and commissioned a study. The results are political dynamite.

★ ★ ★

As this 19th Anniversary Issue shows, the Birch study undercuts the final remaining argument of the Chamber of Commerce/downtown development booster squad: that new highrise buildings mean new jobs. Instead, it shows, virtually all of the new jobs are created by small businesses — businesses that, in many cases, can't afford to locate in new office towers. Businesses, in fact, that the highrise boom may well be driving out of town.

The Birch study arrived in our office just as the San Francisco Information Clearinghouse was finishing its own study of small business in the South of Market district — and just as Mayor Feinstein was proclaiming in her State of the City speech that downtown development "continues to create 10,000 new jobs a year." The SFIC study is based on first-hand information — surveys, interviews and intensive discussions with more than 30 small businesses and more than 50 other individuals and groups involved in South of Market planning and politics. It shows almost exactly what the Birch study shows: that small businesses create jobs, and that the highrise boom is forcing them out of town. We still aren't sure where Mayor Feinstein's figures come from — even her press secretary doesn't seem to know. But unless Birch's data is proven inaccurate — and so far, nobody has been able to do so — the mayor's statement is a long ways away from economic reality.

Which isn't all that surprising. If Birch is accurate, virtually everything Feinstein's City Planning Commission has done for at least three years is based on faulty information — including the Downtown Plan. In fact, Birch's study suggests that the Environmental Impact Report on the Downtown Plan is dead wrong, almost from page one.

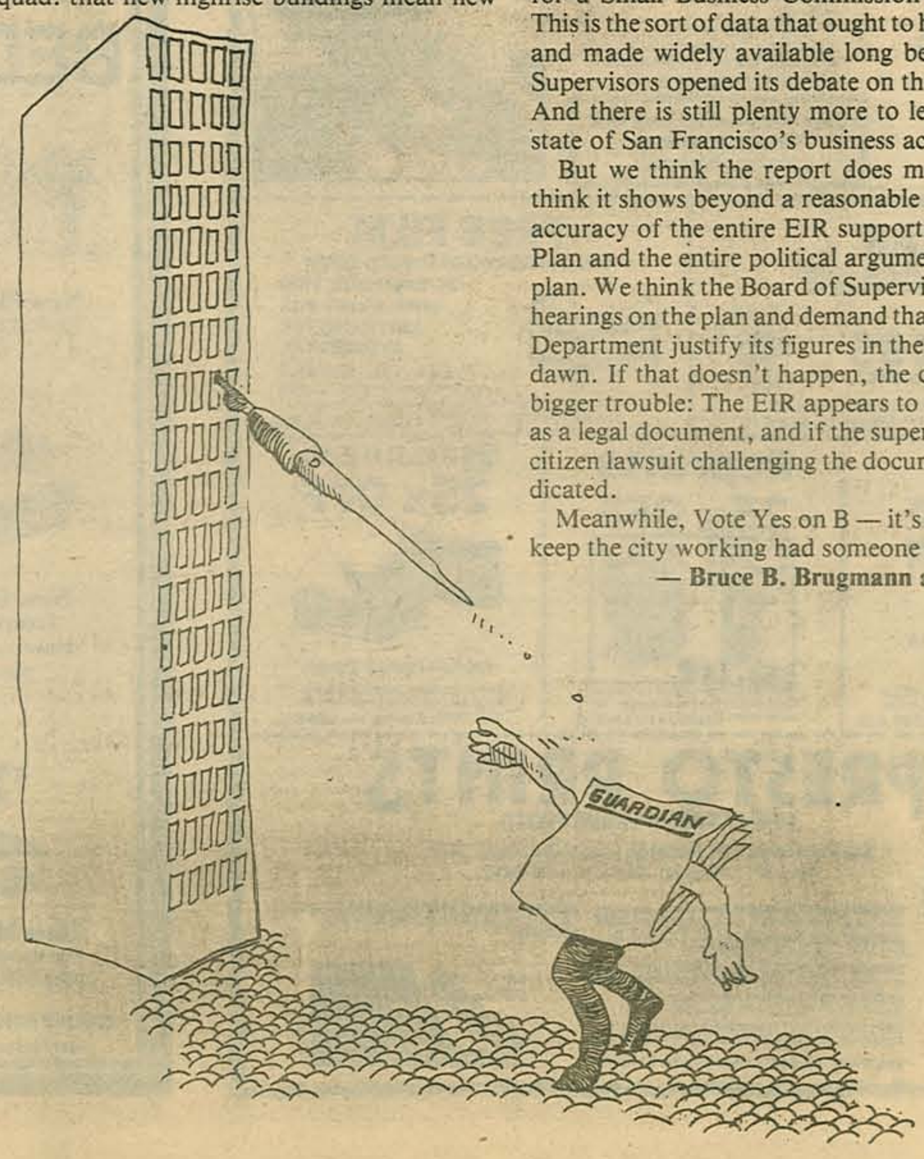
The details are all in the stories that follow, but the basic message is this: The EIR assumes that new development will mean new jobs — that, in other words, the buildings under construction will fill up quickly as major downtown corporations expand their workforce. Almost everything else in the EIR — and every political argument in favor of the plan — starts off with that assumption. And our evidence, the first comprehensive study of its kind in San Francisco, suggests that assumption is fundamentally incorrect.

If nothing else, the Birch report underscores the need for a Small Business Commission in San Francisco. This is the sort of data that ought to have been compiled and made widely available long before the Board of Supervisors opened its debate on the Downtown Plan. And there is still plenty more to learn about the real state of San Francisco's business activity.

But we think the report does more than that. We think it shows beyond a reasonable doubt the basic inaccuracy of the entire EIR supporting the Downtown Plan and the entire political argument used to pass the plan. We think the Board of Supervisors should reopen hearings on the plan and demand that the City Planning Department justify its figures in the cold, clear light of dawn. If that doesn't happen, the city may have even bigger trouble: The EIR appears to be deeply deficient as a legal document, and if the supervisors won't act, a citizen lawsuit challenging the document is certainly indicated.

Meanwhile, Vote Yes on B — it's time the folks who keep the city working had someone working for them.

— **Bruce B. Brugmann and Tim Redmond**



1971 GUARDIAN GRAPHIC BY LOUIS DUNN

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19TH ANNIVERSARY SPECIAL
SMALL BUSINESSES: THE JOB GENERATORS

THE END OF THE HIGHRISE JOBS MYTH

AN EXCLUSIVE BAY GUARDIAN STUDY CONTRADICTS THE KEY ASSUMPTION BEHIND CITY PLANNING POLICY: THAT MORE HIGHRISE BUILDINGS MEAN MORE JOBS

BY TIM REDMOND AND DAVID GOLDSMITH

Small, locally owned independent businesses were responsible for virtually all of the job growth in San Francisco between 1980 and 1984, while employment at major downtown corporations declined, a study commissioned by the Bay Guardian shows.

The study, by Massachusetts Institute of Technology economist David Birch, directly contradicts the fundamental economic assumption that has guided city planning policy for more than two decades: that downtown office development is the primary source of job growth and economic vitality in the city. In fact, the study suggests the opposite may be true: If the city's goal is job creation, further downtown office development may do more harm than good.

The report, which contains economic data never before compiled for San Francisco, raises serious questions about the accuracy of the economic projections used in almost every Environmental Impact Report the city has published in the past three years, including the EIR on the Downtown Plan.

Birch has emerged in the past five years as one of the leading experts on job generation in American cities. He has prepared reports for municipal agencies and private economic development groups in cities as diverse as Denver, Houston, Philadelphia, Seattle and St. Petersburg, Florida.

His study of job growth in San Franciso from 1972 to 1984 is based on computerized data from the U.S. Department of Commerce and the Dun and Bradstreet Corporation, a nationwide marketing and credit research firm that annually compiles first-hand information on some 85% of the companies doing business in San Francisco.

Birch ran the San Francisco data — amounting to more than 30,000 annual entries — through a computer program he has developed and refined over more than a decade of research.

The results are startling. From 1980 to 1984, the study shows, companies with fewer than 99 employees created 12,373 net new jobs in San Francisco, while firms with 100 or more employees posted a net loss of 6,107 jobs. The vast majority of the new jobs — 8,660 — were created by the smallest firms, those with 19 employees or less.

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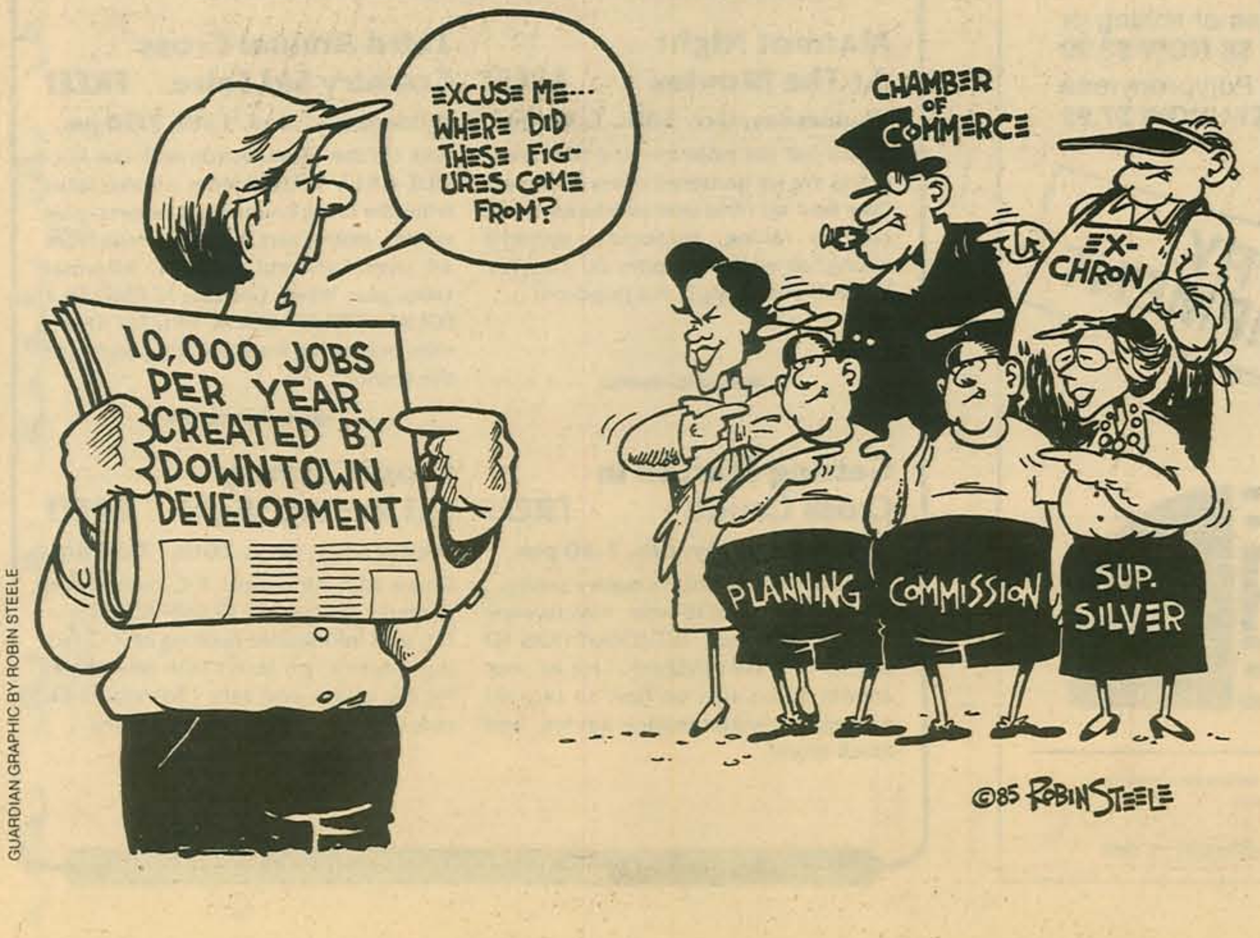

GUARDIAN GRAPHIC BY ROBIN STEELE

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Job growth by young firms far outstripped that of older ones for the study period. Companies less than four years old had a net gain of 30,597 jobs, while firms 12 years or older showed a loss of 13,382.

Overall, the data shows, the city's employment base has grown only slightly since 1980, with most of the growth concentrated in a few service industries. In fact, Birch reports, the city's overall job growth peaked in the years between 1972 and 1976; since then, the growth rate has fallen steadily (see box, page 13).

A Bay Guardian survey of the city's 15 largest companies confirms that they are cutting back on employment. The 12 firms willing to provide information on their San Francisco employment had a combined 5.9% loss in jobs in the past two years alone.

The state of the city

The economic picture of San Francisco in Birch's study is very different from that described time and again over the past year by Mayor Dianne Feinstein, Planning Director Dean Macris, the Chamber of Commerce, Central Labor Council President Walter Johnson, most of the city's supervisors and both daily newspapers.

Just two weeks ago, in her Oct. 7th State of the City speech, Feinstein said that the city's economy "remains vibrant and healthy . . . largely thanks to the fact that our downtown has continued to generate at least 10,000 new jobs each year." The San Francisco Chronicle repeated the mayor's 10,000-jobs-a-year statistic without challenge in an Oct. 9th editorial praising her economic policies.

Supervisor Carol Ruth Silver, in a column published in October by the Chamber of Commerce magazine, *San Francisco Business*, said that the Downtown Plan should have been named "The Limit Job Growth Ordinance." The legislation, she wrote, will "cut back by more than 50% the rate of creation of new jobs in San Francisco." This month, Johnson, the city's top labor official, added his voice to the chorus praising office

South of Market small business feels the squeeze: A new SFIC report

Rising land cost associated with the downtown office boom is the major threat to small businesses in the South of Market district, a new study prepared by the San Francisco Information Clearinghouse shows.

The study also finds that the Downtown Plan "makes no special provisions for assisting or protecting existing small businesses," and that there is no coordinated small business assistance plan for the City of San Francisco.

Small business operators interviewed for the study said they expect that continued office development will drive out light industrial and manufacturing firms, artists and small business support services — the types of businesses that create most of the new jobs in San Francisco (see main story).

The interviewees "repeatedly stated that they felt 'powerless' to overcome the development pressure that confronts them and complained that there was no agency of local government advocating for them," the study reports.

The study was part of a settlement with several major office developers negotiated by San Franciscans for Reasonable Growth. SFRG had sued the developers and the city, claiming Environmental Impact Reports on new office buildings were inaccurate and deficient. Among other things, the settlement required the developers to pay for an in-depth report on the problems facing small businesses in the South of Market district, where much of the new office development envisioned in the Downtown Plan will go.

The San Francisco Information Clearing House, a nonprofit community research group, released a 138-page draft of the study to the Bay Guardian earlier this month. The results are based on a survey of small businesses, extensive interviews and "focus group" discussions with more than 50 individuals and organizations — from real estate brokers to neighborhood associations — involved in South of Market planning issues.

The report suggests that while the office development boom of recent years is bringing down rents in first-class downtown buildings, it has forced higher rents in retail, industrial and warehouse space. One commercial real estate broker is quoted in the report as saying his firm has a backlog of 50 firms seeking low-cost industrial space. The skyrocketing rents, this broker says, "will choke off small business service enterprises necessary to meet downtown needs."

Most of the small businesses surveyed said they probably would fold if forced to move to a downtown office building.

— T.R.

development. In a ballot argument against Prop. F, which would impose a three-year limit on highrise growth, Johnson stated that "San Francisco's one source of new jobs is work in downtown offices."

Downtown scam

Those statements share the common assumption that continued office construction will create large numbers of job opportunities — and that any attempt to limit new construction would stifle job creation. Of course, new buildings in and of themselves don't create jobs for anyone except construction workers, and those jobs are not permanent. So the "Downtown creates jobs" argument involves a further assumption: that employers are looking to expand the size of their downtown office staff — and that developers are responding to that demand for new office space by building new highrises.

"It is important to understand," the Environmental Impact Report on the Downtown Plan states, "that the forecasting methodology [used in the report] follows the logic that space is built to accommodate employment growth." Of course, it follows from that logic that a huge increase in building permit applications is evidence of a strong demand for new office space — and thus of an expanding downtown workforce.

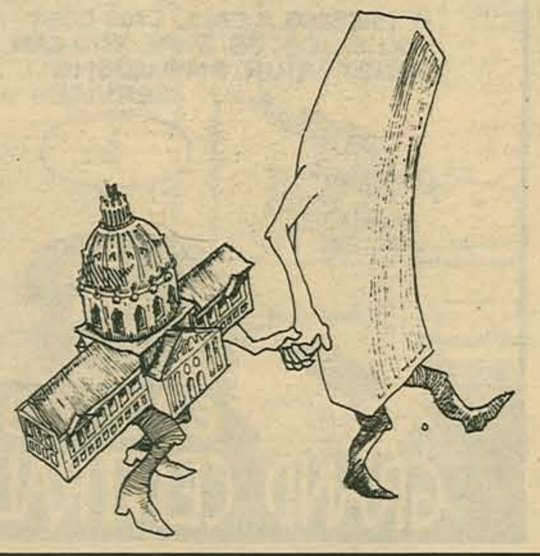
Almost everybody in the city now concedes publicly that the office building boom has had tangible negative effects on San Francisco: traffic congestion, soaring housing costs, overcrowded transit systems, and the loss of open space and historic architectural resources, among other things. However, during discussion on the Downtown Plan, city officials and Chamber leaders argued that the office boom must be allowed to continue without severe limitations. Sure, they said, there are costs involved — but those are costs we simply have to pay. Parks, buses and clean air are nice, but job growth is essential to prevent the city from total economic collapse. And unless we let the buildings go up, we can't create jobs.

The problem is, neither the city nor the Chamber has any hard data to back up their claims. The only data they do have is incomplete and badly out of date (see sidebar). And neither of their arguments takes into account a well-documented change taking place in the commercial real estate market nationwide in the past five years.

More buildings, fewer jobs

The Downtown Plan EIR projects that most of the job growth will occur in the headquarters offices in the "manufacturing, mining, finance, insurance and similar companies." It states that, "Continued expansion of headquarters operations supports growth in the office sector."

Even the Chamber of Commerce doesn't buy that argument. The Chamber acknowledges publicly that



LOUIS DUNN GRAPHIC FOR THE 1971 BAY GUARDIAN BOOK, "THE ULTIMATE HIGHRISE."

Fortune 500 headquarters companies are not creating many new jobs these days. But Chamber leaders still cling to the concept that job growth is driving the commercial office boom. Smaller businesses are creating most of the jobs, Chamber Executive Director John Jacobs wrote in the June 1985 issue of *San Francisco Business*, "and their need for office space [has] resulted in continued downtown construction."

Birch's report shows overall employment growth figures for the 1970s that are roughly similar to those reported by the City Planning Department and the Chamber. During that period, the data shows, major downtown corporations expanded their operations and hired thousands of new employees, many of whom now work in the millions of square feet of office space constructed in that decade.

But the Birch report also suggests that, in general, job growth and growth in new office space are inversely related — in other words, the report shows, job growth seems to increase the fastest during periods when office construction is growing the least (see chart, page 25).

More importantly, the report shows that over the past four years, the rapid rise in highrise construction has not been associated with a new round of job growth, but rather has occurred at a time when the city's overall employment growth is at its lowest level in more than ten years. In the 1980s, it's clear, the highrise boom is simply not creating jobs.

According to Birch, the explanation for that phenomenon is fairly obvious — and generally consistent with the results of his studies elsewhere in the country. The companies that are most likely to fill new office space — corporate headquarters and large, established firms in areas like finance, insurance and real estate — showed a net job loss over the past four years. The job growth is taking place almost exclusively in firms that can't afford the $35 a square foot rents that are standard in new commercial buildings.

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THE DAVID BIRCH/BAY GUARDIAN STUDY: SUMMARIZING THE RESULTS

Compound Annual Growth Rate

Period	U.S.	San Francisco	Difference
1972-76	1.8	4.1	2.3
1976-80	4.5	2.2	-2.3
1980-82	-0.4	-1.4	-1.0
1982-85	2.5	n.a.	n.a.

Leading job generators by sector, 1972-1982

Sector	Net New Jobs Created
Heavy Construction	20018
Business Services	15122
Eating & Drinking Places	9978
Health Services	9176
Banking	8828
Legal Services	6751
Miscellaneous Services	5716
Communications	4389
Credit Agencies	3621
Utilities	3484

Least effective job generators by sector, 1971-1982

Sector	Net New Jobs Created
Wholesale-Durables	-7533
Insurance Carriers	-6718
Food Products Mfg.	-4540
Membership Organizations	-4213
Air Transport	-3355
Fabricated Metal Products	-2589
Local & Interurban Transit	-1917
General Contractors	-1861
Retail Automotive	-1597
Gen. Merchandise Stores	-1204

Job generation by age of firm, 1980-1984

Age	Net Jobs Created	Percent Net Job Change
0-4	30597	88.6%
5-8	-8315	-30.4
9-11	-4106	-19.0
12+	-13382	-9.4
Unknown	1064	1.6
TOTALS	5858	2.0

Job generation by firm size, 1980-1984

Employment Size	No. Rapidly Growing Establishments	Percent of Rapidly Growing Establishments
0-19	291	51.1%
20-99	128	22.5
100-499	57	10.0
500+	82	14.4
Unknown	12	2.1
TOTALS	570	100.0

Number of rapidly growing firms by size, 1980-1984

Ownership	Percent of Rapidly Growing Establishments
Independent Firm	52.5%
Subsidiary	2.8
Headquarters of Firm	28.1
Branch of Local Firm	2.8
Branch of Non-local Firm	13.9
TOTALS	100.0

Number of rapidly growing firms by ownership, 1980-1984

Employment Size	Net Jobs Created	Percent Net Job Change
0-19	8660	18.3%
20-99	3713	7.1
100-499	-2367	-4.8
500+	-3740	-2.7
Unknown	-1391	-15.4
TOTALS	4874	1.6

The above charts contain the main summary results of David Birch's study on job generation in San Francisco. "Overall, these data portray San Francisco as being a mature, yet enterpreneurial economy," Susan J. MacCracken, Birch's research and analysis director, explained in a letter outlining the study's results.

"Unlike the burgeoning 'Sunbelt' cities, most of whose growth peaked in the late Seventies/early Eighties, San Francisco showed its largest [job] gain between 1972 and 1976," MacCracken added. She said the city "depended exclusively on locally controlled firms for its net job creation, thereby indicating high levels of enterpreneurial activity."

Specifically, the study shows, San Francisco lagged behind the U.S. economy as a whole for most of the study period — the only exception being the period between 1972 and 1976.

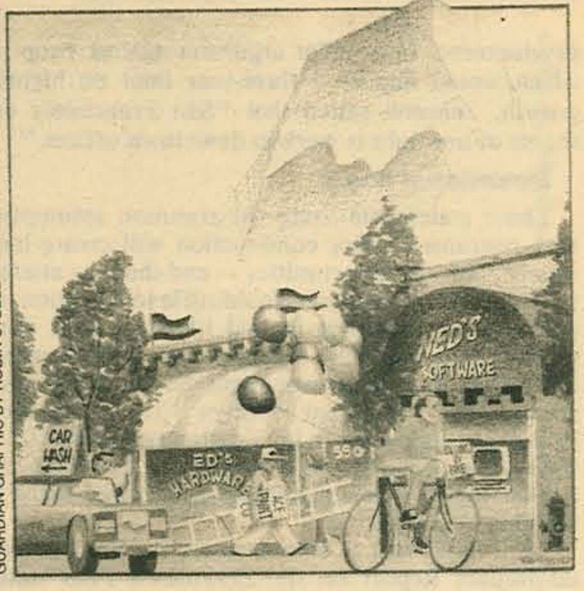
Other than heavy construction (stemming, of course, from the downtown highrise boom), the largest contributors to the city's employment growth were in the service sector. The greatest job losses occurred in the wholesale-durables sector and the insurance industry.

Birch used data from the U.S. Department of Commerce for the 1972-82 period. He focused most intensively, however, on the years between 1980 and 1984. For that period, he relied exclusively on data from the Dun and Bradstreet Corporation, a marketing research firm that had collected first-hand survey information from roughly 85% of the businesses in San Francisco.

Since 1980, Birch found, the only net job creation occurred at firms with fewer than 99 employees, most of it at firms with fewer than 19 employees. Equally interesting is the fact that all of the net job growth occurred at firms 0-4 years of age. (The age data is somewhat less precise, Birch said, because age data wasn't available for a significant number of firms.)

Since most of the job growth occurred in rapidly growing establishments, Birch also analyzed which types of firms in San Francisco grew rapidly between 1980 and 1984. His conclusion: The rapidly growing firms were largely small and almost entirely locally owned.

The Dun and Bradstreet data, Birch said, generally have been consistent with the Commerce Department's County Business Patterns, one of the leading sources of historic economic data. County Business Patterns, however, doesn't provide detailed information on firm size, age and ownership — in fact, Birch said that as far as he is aware, the D&B database is the only reliable source of such information available in the country today.



GUARDIAN GRAPHIC BY ROBIN STEELE

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"You can't create jobs by building new, high-rent offices that appeal overwhelmingly to a section of the economy that is declining," he explained in an interview on the results of his work. "The firms that are growing and expanding can't afford to pay $35 a square foot for office space, so a lot of those buildings will end up vacant."

Off limits

Birch's study examines San Francisco only as a whole, it doesn't break the data down geographically. However, interviews with local small business owners and business consultants tend to confirm Birch's analysis. Harris Loeser, a small business broker with Vanderhorst Business Brokers in San Mateo, told the Bay Guardian that downtown office space is "off limits" to many small businesses. "A lot of small businesses are leaving downtown SF because the cost of office space is prohibitive," Loeser said.

In Seattle, a recent survey of 1,100 firms conducted by the regional economic development authority also supports the contention that young, rapidly growing companies have little use for first-class downtown office space. Like San Francisco, Seattle has seen a dramatic increase in its central business district office space — office space has nearly doubled over the past five years. But the survey shows that most of the businesses based in the area of rapid office expansion are the companies showing little or no employment growth—those with more than 100 employees that have been in business more than ten years.

On the other hand, the study showed, in the low-rise industrial areas on the periphery of downtown, a full 25% of the businesses fit the profile of the firms most likely to generate new jobs in the city — small, independent ventures that were not in existence five years ago.

"In San Francisco, I suspect you'll find a similar trend," Erik Johnsen, executive director of the Central Puget Sound Economic Development District, told the Bay Guardian. "The firms that are creating all the real job growth in Seattle apparently don't have much reason to move into the new 50-story buildings."

The bulldozer effect

New construction inevitably involves demolition of older buildings. As the Financial District expands south of Market under the Downtown Plan's new zoning rules, many of the older buildings that will face demolition are places that currently offer low-rent space. When that happens, a new study by the San Francisco Information Clearinghouse demonstrates, dozens of small businesses — and, potentially, hundreds of jobs — may be forced out of the city. The study, released to the Bay Guardian this month, suggests that many of the companies located in South of Market buildings anticipate that they won't be able to afford to relocate in a new highrise building (see sidebar, page 12).

"The primary concern of the small business operators interviewed [for the study] was the lack of space available and suitable for their needs," the report states. "Small business interviewees generally felt that they were 'location sensitive' and relocation out of the area was not seen as an available option for them." The study says that 57% of the businesses surveyed felt they could not relocate in a new commercial office building — "the only option for relocation given them in the Downtown Plan."

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